

Institutional Banking
6 Markets

INSTALMENT WARRANTS

Potential to enhance dividend income and capital growth using Instalment Warrants

27 November 2013



Important information.

> Produced by Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945. Instalment Warrants are produced by Commonwealth Bank, which is administered by its wholly owned by non-guaranteed subsidiary Commonwealth Securities Limited ABN 60 067 254 399, a Participant of ASX Group and Chi-X Australia. The Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945 ("the Bank") and its subsidiaries, including Commonwealth Securities Limited ABN 60 067 254 399 AFSL 238814 ("CommSec"), Commonwealth Australia Securities LLC, CBA Europe Ltd and Global Markets Research, are domestic or foreign entities or business areas of the Commonwealth Bank Group of Companies (CBGOC). CBGOC and their directors, employees and representatives are referred to below as "the Group". This information is directed and available to and for the benefit of Australia residents only.

> This material is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy any securities or financial instruments. This communication has been prepared without taking account of the objectives, financial situation and capacity to bear loss, knowledge, experience or needs of any specific person who may receive this communication. No member of the Group does, or is required to, assess the appropriateness or suitability of the material for recipients who therefore do not benefit from any regulatory protections in this regard. All recipients should, before acting on the information in this communication, consider the appropriateness and suitability of the information, having regard to their own objectives, financial situation and needs, and, if necessary seek the appropriate professional, foreign exchange or financial advice regarding the content of this communication. We believe that the information in this communication is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this communication. Any opinions, conclusions or recommendations set forth in this communication are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by the Group. We are under no obligation to, and do not, update or keep current the information contained in this communication. The Group does not accept any liability for any loss or damage arising out of the use of all or any part of this communication. Any valuations, projections and

forecasts contained in this communication are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. The Group does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met. Past performance is not a reliable indicator of future performance. The Group has provided, provides, or seeks to provide, investment banking, capital markets and/or other services, including financial services, to the companies described in the communication and their associates. This communication is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject any entity within the Group to any registration or licensing requirement within such jurisdiction. All material presented in this communication, unless specifically indicated otherwise, is under copyright to the Group. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior written permission of the appropriate entity within the Group. In the case of certain products, the Bank or one of its related bodies corporate is or may be the only market maker. The Group, its agents, associates and clients have or have had long or short positions in the securities or other financial instruments referred to herein, and may at any time make purchases and/or sales in such interests or securities as principal or agent, including selling to or buying from clients on a principal basis and may engage in transactions in a manner inconsistent with this communication

> Unless agreed separately, we do not charge any fees for any information provided in this presentation. You may be charged fees in relation to the financial products or other services the Bank provides, these are set out in the relevant Financial Services Guide (FSG) and relevant Product Disclosure Statements (PDS). Our employees receive a salary and do not receive any commissions or fees. However, they may be eligible for a bonus payment from us based on a number of factors relating to their overall performance during the year. These factors include the level of revenue they generate, meeting client service standards and reaching individual sales portfolio targets. Our employees may also receive benefits such as tickets to sporting and cultural events, corporate promotional

merchandise and other similar benefits. If you have a complaint, the Banks dispute resolution process can be accessed on 132221

> A Product Disclosure Statement is available and should be considered before making any investment decision about this product. Instalment Warrants are sophisticated financial products and involve dealing in derivatives. Unless you are familiar with derivative dealings and such products, these products may not be suitable for you and your clients. A Product Disclosure Statement can be obtained from Commonwealth Bank by calling 1300 786 039 or emailing warrants@cba.com.au. Investments in Instalment Warrants are not Bank Deposits.

The case studies are used for illustrative purposes only – neither Commonwealth Bank nor CommSec are specifically recommending the securities used. The case studies are based on the market prices as at the date of preparation of this document and may change as market conditions change. The franking and dividend assumptions are based on public statements by the listed entity and/or an average of market analysts' forecasts. Their accuracy cannot be guaranteed and future outcomes may vary markedly. The case study assumes that franking credits and dividend offsets are fully available to investors.

The presentation is intended for Australian Residents only

Suitability

Instalment Warrants generally suit investors who want to

Borrow

to invest in
Australian
shares without
margin calls

Increase

their exposure to
capital appreciation,
dividends and
franking credits

Implement

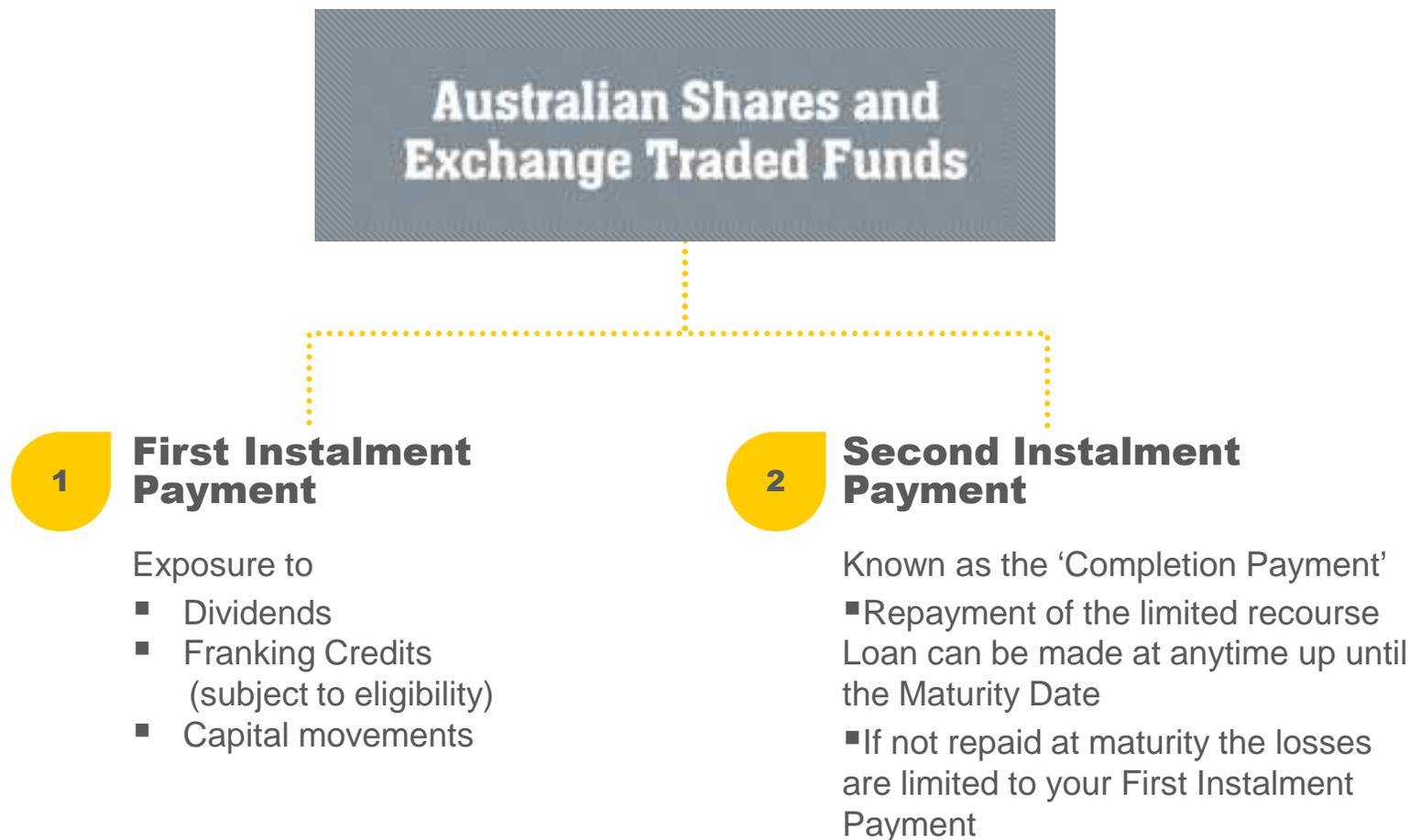
a gearing
strategy within
their SMSF

Build

a medium
to longer
term portfolio

Introducing Instalment Warrants

Buy shares in two payments



Investment cycle of Instalment Warrants

Instalment Warrants offer investors the opportunity to access listed shares and build a share portfolio over a period without paying for all of the share price upfront

Today

- Select an Instalment Warrant that reflects your investment strategy. Simply purchase your Instalment Warrants on the ASX during normal market hours
- Pay around 30% to 50% of the value of the underlying security (depending on the leverage provided)

During the term

- Receive dividends and franking credits (subject to eligibility) related to the underlying securities
- Exposure to any capital movements in the security price
- Your Instalment Warrants can be sold on the ASX at any time during normal ASX market hours
- Take legal ownership of the underlying securities by giving a valid Completion Notice to Commonwealth Bank and making the Completion Payment

Maturity date

- Take legal ownership of the underlying securities by giving a valid Completion Notice to Commonwealth Bank and making the Completion Payment
- Sell your Instalment Warrants on the ASX during normal market hours
- Do nothing. Commonwealth Bank will sell the underlying securities, repay the loan and deliver any proceeds remaining

Features of Instalment Warrants

Two simple payments

1

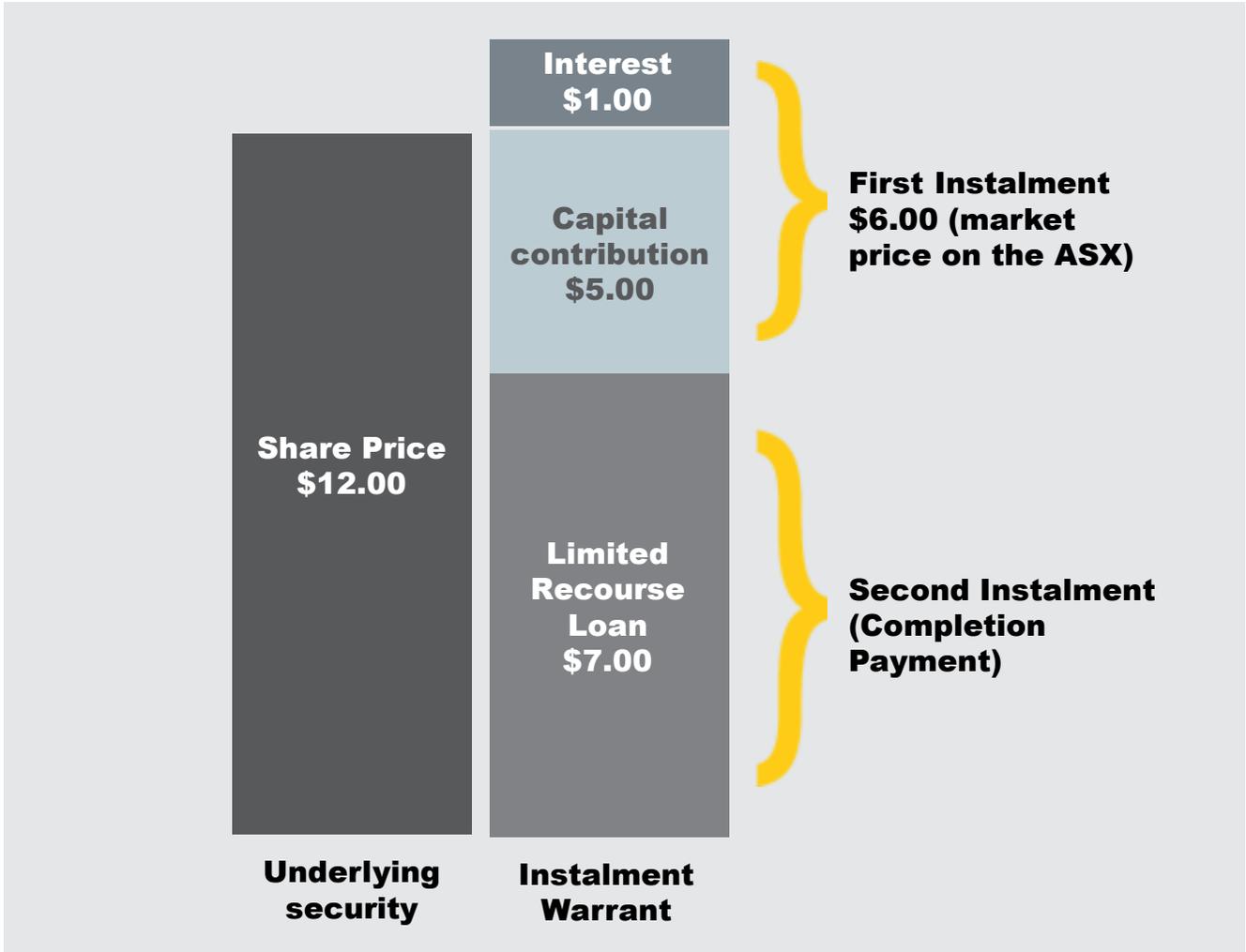
First Instalment

- Interest Amount
- Capital contribution

2

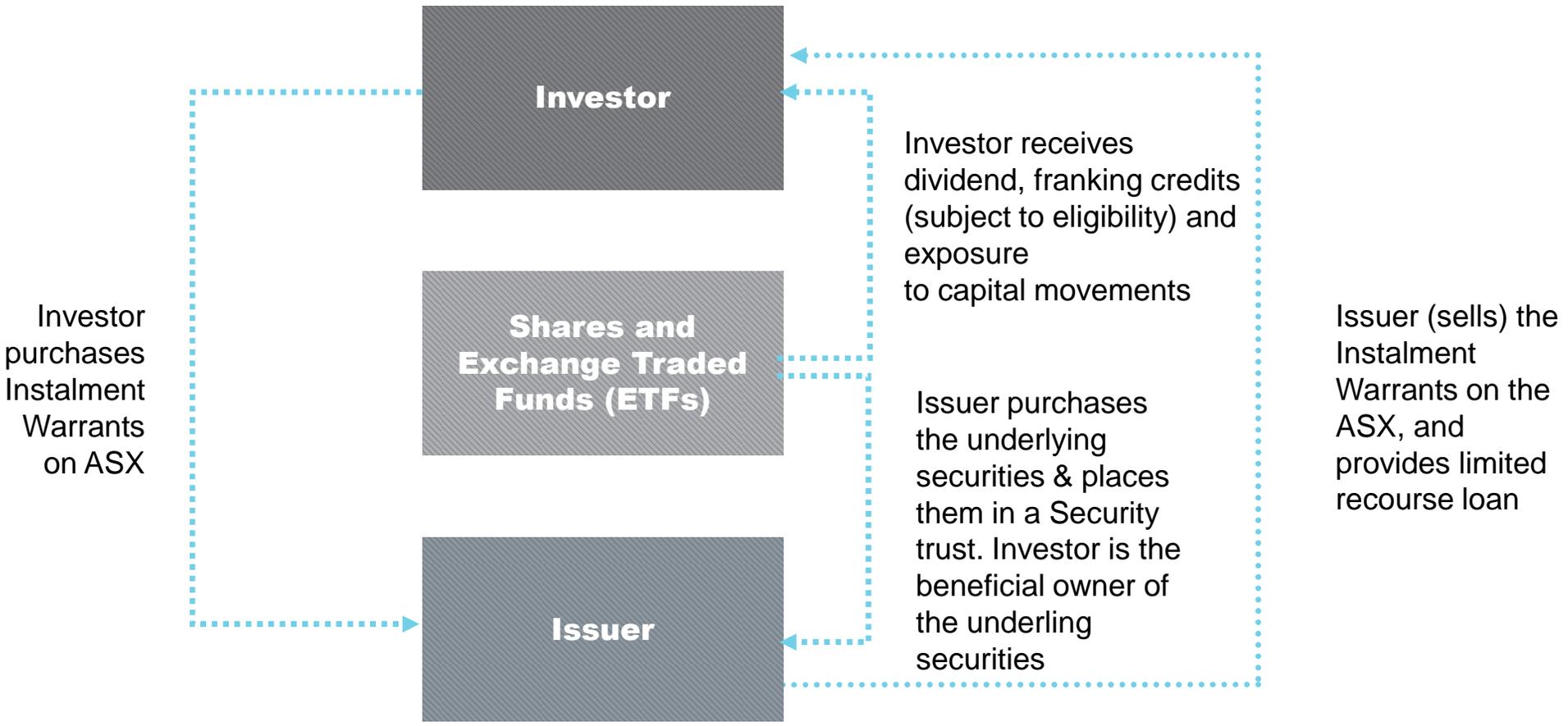
Second Instalment

- Payment to take the Underlying Securities
- Repayment of the limited recourse Loan can be made at anytime up to and including the Maturity Date
- Initially set at between 50% to 70% of underlying security
- If not paid then any losses limited to First Instalment



Features of Instalment Warrants

Beneficial ownership of shares



Features of Instalment Warrants

IYA and IYB series issued by Commonwealth Bank

Securities	Choose from over 30 shares and ETFs
Investment amount	No minimum investment, traded on ASX
Term	Up to two years from the date of issue
Initial gearing level	Generally 50 to 70% of underlying security price
Interest	Paid by investor as part of market price on the ASX.*
Dividends	Ordinary Dividends and franking paid to holders
Margin calls	No
Type of loan	Limited recourse
Taxation	Potential interest deductions and entitlement to franking credits

* Market price does not include any brokerage which may be charged by your broker

How they compare to other forms of leverage

Instalment Warrants, favourable features ...

	Instalment Warrants	Margin Loans
Available over leading shares and ETFs	✓	✓
No credit checks or application forms	✓	✗
No margin calls	✓	✗
Limited recourse borrowing	✓	✗
Losses limited to initial capital contribution	✓	✗
Eligible for SMSFs	✓	✗
Each share a separate loan	✓	✗
Traded on the ASX	✓	✗

Benefits of Instalment Warrants

Purchase ASX listed securities in **two payments**.

Enhanced dividend income

Investors gain leveraged exposure to movements in the share price

Completion Payment can be made at any time

No margin calls due to the limited recourse nature of the loan

No credit check or loan documents complete

Listed and traded on the ASX, offering flexibility and transparency

Sits on your **CHESS** account with your other shareholdings

Issued over a broad range of leading **shares** and **indices**

Risks to consider

Instalments are a leveraged share market investment and as such there is a potential for loss. Investors should consider the potential risks of investing in Instalments and these are detailed in Section 3.2 of the Instalment Warrants Product Disclosure Statement (PDS)

These include but are not limited to

The **value** of the underlying securities **may fall**, which would result in the value of the Instalment Warrants falling, potentially to zero

The **leverage** (gearing) incorporated in the Instalments will **magnify** any **losses** that occur

Impact of changes in volatility, interest rates and dividends some of which may **adversely affect the Instalment Price**

On the **maturity** date the **value** of the underlying security may be **less than the Completion Payment**. In this case the investor will lose their initial capital outlay and any associated brokerage costs.

Changes in Australian tax law and legislation

Instalment Warrants are not bank deposits with or liabilities of Commonwealth Bank



How to purchase Instalment Warrants

As simple as buying shares

Buying Instalment Warrants is as simple as purchasing shares.

But first you must identify an Instalment Warrant by its ASX Code

ASX code:

N A B I Y A

NAB

The first three letters indicate the ASX Code of the underlying security

I

The fourth letter indicates the warrant type. An Instalment Warrant is (I)

Y

The fifth letter indicates the issuer of the Instalment. Commonwealth Bank issuer code is (Y)

A

The sixth letter indicates the individual series

You will need to sign a Warrants Agreement with your stockbroker or Financial Planner to commence trading Instalment Warrants

The Instalment Warrants Market

Listed on the ASX

The image shows two screenshots of the IRESS trading platform. The top screenshot displays the market for WBC.ASX (Westpac Banking Corp) with a bid-ask spread of 3300-3301 and a volume of 4,233T. The bottom screenshot shows WBCIYA.AXW (CBA 15.00 Jul15 Iw) with a bid-ask spread of 1988-1990 and a volume of 1000.

Security	DS	R	Last	LastDS	+/-	%	Bid	Ask	Volume	Open	High	Low	Basis	PrevClose
WBC	AUX		3300	TM	48	1.48	3300	3301	4,233T	3311	3311	3296		3252

Security	DS	R	Last	LastDS	+/-	%	Bid	Ask	Volume	Open	High	Low	Basis	PrevClose	Tre
WBCIYA	AUX		1888	TM	0	0	1988	1990	0	0	0	0		1888	

Source - IRESS

The securities listed in this example are for illustrative purposes only and should not be considered as a recommendation to buy, sell or hold those securities.



Instalment Warrants

Strategies to consider.

Additional income strategy

Increasing exposure via Instalment Warrants

Case Study

Olivia is looking to generate additional income with the limited funds available in her SMSF.

After doing her research she believes Telstra offers an attractive yield and is comfortable holding the shares for the medium to longer term.

She wishes to increase her exposure by introducing a gearing strategy in the fund. Olivia consults with her financial adviser, who confirms Instalment Warrants are an eligible investment for Olivia's SMSF.

Instalment Warrants provide a way to implement a gearing strategy in her SMSF.

Olivia looks at the following Instalments Warrants.

Instalment Details

TLSIYA Instalment Warrant

Underlying ASX Code	TLS.ASX
Share Price	\$5.06
Indicative First Payment	\$2.82
Completion Payment (Loan)	\$2.50
Leverage	49%
Maturity Date	29-Jul-15

TLSIYB Instalment Warrant

Underlying ASX Code	TLS.ASX
Share Price	\$5.06
Indicative First Payment	\$1.95
Completion Payment (Loan)	\$3.50
Leverage	69%
Maturity Date	29-Jul-15

Indicative Pricing as at close trading 25 November 2013

Leverage is calculated by Loan/Share Price

The Instalment Warrants set out in the tables above are for illustrative purposes only and should not be taken as a recommendation to buy, sell or hold those Instalment Warrants. The information should

not be taken to represent actual performance and should not be interpreted as a guarantee of future performance. Note that leverage will magnify losses as well as gains.



Additional income strategy

Funding Costs and Forecast Dividends

Both Instalment Warrants are positively geared on a gross basis (Income minus interest).

Components of First Instalment Price

	TLSIYA	TLSIYB
Capital contribution	\$2.56	\$1.56
Interest Amount	\$0.26	\$0.39
First Payment	\$2.82	\$1.95
Effective Interest Rate p.a	6.21%	6.57%

Forecast Dividends until the Maturity Date

Forecast Dividends				Total until Maturity
Date	17-Feb-14	18-Aug-14	16-Feb-15	
Cash Dividend	\$0.145	\$0.145	\$0.16	\$0.45
Franked Amount	\$0.062	\$0.062	\$0.069	\$0.193
Gross Dividend	\$0.207	\$0.207	\$0.229	\$0.643

The franking (estimated at 100%) and dividend assumptions are based on CBA Global Markets Forecasts as at 26 Nov 2013. Their accuracy cannot be guaranteed and the analysis assumes franking credits and dividend rebates are fully available to investors (availability will depend on the individual circumstances of each investor and no material changes with regard to the tax treatment relating to shares or the investment). Ex-dividend dates are estimated only. Potential investors should ensure they consider the Tax Considerations in the PDS.

Additional income strategy

Additional income exposure with Instalment Warrants

Increased dividends and franking credits exposure

For the same dollar investment, you can increase your exposure to capital movements, dividends and franking credits

	TLS		
	Shares	TLSIYA	TLSIYB
Investment Amount	\$10,000	\$10,000	\$10,000
Purchase Price	\$5.06	\$2.82	\$1.95
Completion Payment (Loan)	n/a	\$2.50	\$3.50
Quantity purchased	1,976	3,546	5,128
Share exposure*	\$10,000	\$17,943	\$25,948
Dividends per underlying security	\$0.45	\$0.45	\$0.45
Franking credits per underlying security	\$0.193	\$0.193	\$0.193
Total Dividends	\$0.643	\$0.643	\$0.643
Gross Dividend Amount	\$1,271	\$2,280	\$3,297
Instalment Warrant Maturity Date	n/a	29-Jul-15	29-Jul-15

The dividend assumptions are based on CBA Global Markets Research Forecasts as at 26 Nov 2013 and franking (estimated at 100%) on historical practice. Their accuracy cannot be guaranteed and the analysis assumes franking credits and dividend rebates are fully available to investors (availability will depend on the individual circumstances of each investor and no material changes with regard to the tax treatment relating to shares or the investment). Purchase Price for Underlying Securities and Instalment Warrants does not include brokerage that may be charged by your broker for purchasing Instalment Warrants on the ASX. The Commonwealth Bank do not recommend the stock or strategies set out in this example. The information should not be taken to represent actual performance and should not be interpreted as an indication or guarantee of future performance. Potential investors should ensure they consider the Tax Considerations in the PDS

*Share exposure calculated by multiplying the quantity purchased by the share price.

Additional income

POTENTIAL BENEFITS



Exposure to an enhanced dividend yield and franking credits



Instalment Warrants are issued over a range of dividend paying Australian shares



Flexibility to buy and sell during normal market hours



Available with different gearing levels to suit your investment strategy

POTENTIAL RISKS



The value of the underlying share may fall in the period after the ex-dividend date, which would result in the value of the Instalment Warrants falling, potentially to zero.



The more highly geared the Instalment Warrant, the more significant any potential losses and interest costs associated with holding the investment.

Increased exposure to capital growth strategy

Increasing exposure via Instalment Warrants

Case Study

Paul is 25 and has been saving to commence trading in the share market. He has \$30,000 to invest.

He believes that now is a good time to invest in RIO Tinto as he believes they offer good capital growth in the next couple of years.

He decides to invest \$10,000 of his funds in an Instalment Warrant. He selects RIOIYA which is geared at 42% and will provide him with \$15,885 of exposure to RIO.

During the investment he receives any dividends, franking credits and exposure to the capital movements of RIO.

Instalment Details

RIOIYA Instalment Warrant

Underlying ASX Code	RIO.ASX
Share Price	\$63.54
Indicative First Payment	\$39.98
Completion Payment (Loan)	\$26.50
Leverage	42%
Maturity Date	29-Jul-15

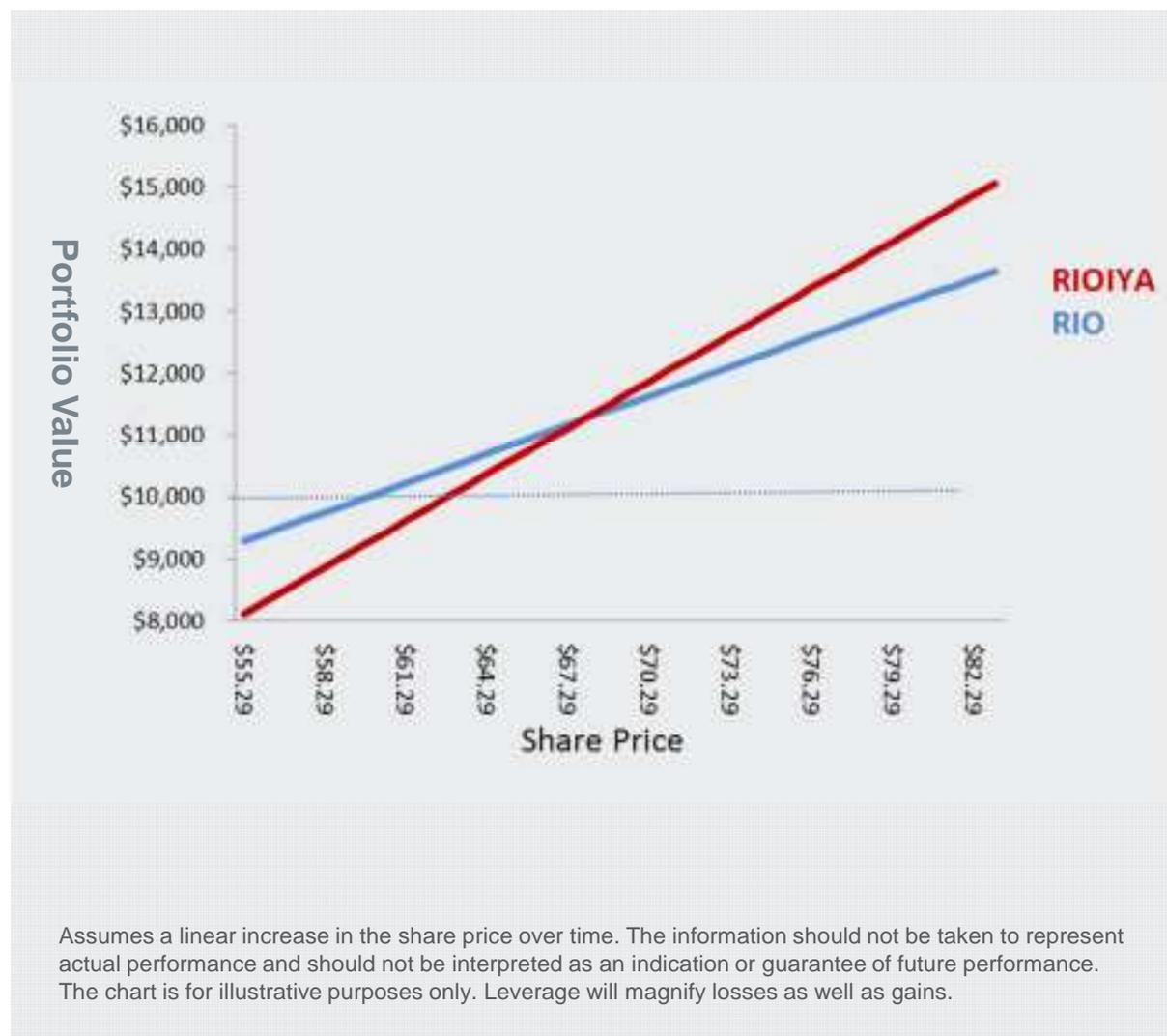
Indicative Pricing based on the open price on 4 November 2013. The Instalment Warrant in this table is for illustrative purposes only and should not be considered as a recommendation to buy, sell or hold this financial product. The information should not be taken to represent actual performance and should not be interpreted as an indication or guarantee of future performance.

Note that leverage will magnify losses as well as gains

Increased exposure to capital growth

Leveraged exposure to capital growth

- Leverage provides an exposure to an investment for a portion of the full outlay
- Leverage can increase returns however it will magnify losses that may occur
- The leverage Instalment Warrants provide is through a limited recourse loan
- No margin calls during the investment
- Any losses limited to your initial outlay
- The position can be closed by selling the Instalment Warrants on the ASX



Increased exposure to capital growth strategy

Increasing exposure via Instalment Warrants

Three weeks later....

Paul reviews his RIOIYA position. Since buying the Instalment Warrants on 4th November, RIO shares have appreciated to \$65.28 and RIOIYA are trading at \$41.54.

He decides to take profits and sell his RIOIYA Instalments.

He would like to compare his return with the same dollar investment in the underlying securities.

Comparison of investments

\$10,000 investment in RIO and RIOIYA

	RIO Shares	RIOIYA
Investment Amount	\$10,000	\$10,000
Purchase Price	\$63.54	\$39.98
Completion Payment (Loan)	n/a	\$26.50
Quantity purchased	157	250
Share exposure	\$10,000	\$15,885
Sale Price	\$65.28	\$41.54
Dollar Gain/(Loss)	\$1.74	\$1.56
% return on amount invested	2.73%	3.90%

This table is for illustrative purposes only. Purchase price is the price in the securities at opening of trading 4th November 2013. Sale Price are the prices in the securities as at opening of trading 25th November 2013. The calculation does not include any brokerage that your broker may charge you to purchase or sell the Underlying Securities or Instalment Warrants on the ASX. Different assumptions and estimates could result in materially different results.

Past performance is not indicative of future performance. Note that leverage will magnify losses as well as gains.

Diversify and increase your exposure

POTENTIAL BENEFITS



Build a larger share portfolio with limited funds



Capital growth potential increased



No margin calls throughout term



Gearing provides client with potential to magnify returns

POTENTIAL RISKS

1

A potential investor should consider the risk that a fall in the Underlying Security may result in the value of the Instalment Warrant falling, potentially to zero.

2

The leverage (gearing) incorporated in the Instalments will magnify any losses that may occur when compared to an investment in the underlying shares.

3

If on the Maturity Date the value of the underlying security is less than the Completion Payment (loan), the investor will lose their initial capital outlay in the Instalment Warrant.

Commonwealth Bank Instalment Warrants

www.commbank.com.au/warrants

What you will find on our website

- Product Brochure
- List of Instalment Warrants and Indicative Pricing
- Frequently Asked Questions
- Product Disclosure Statement (PDS)
- Subscribe to our newsletter

Product	Indicative Price	Indicative Fee	Indicative Interest	Indicative Total	Indicative Term	Indicative Rate	Indicative Spread	Indicative Yield
10000	10000	100	100	10100	12	6.00%	0.50%	6.50%
20000	20000	200	200	20200	12	6.00%	0.50%	6.50%
30000	30000	300	300	30300	12	6.00%	0.50%	6.50%
40000	40000	400	400	40400	12	6.00%	0.50%	6.50%
50000	50000	500	500	50500	12	6.00%	0.50%	6.50%
60000	60000	600	600	60600	12	6.00%	0.50%	6.50%
70000	70000	700	700	70700	12	6.00%	0.50%	6.50%
80000	80000	800	800	80800	12	6.00%	0.50%	6.50%
90000	90000	900	900	90900	12	6.00%	0.50%	6.50%
100000	100000	1000	1000	101000	12	6.00%	0.50%	6.50%

 For further information call 1300 786 039 or email warrants@cba.com.au

Visit our website at www.commbank.com.au/warrants

